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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Recession Is At Hand

While the Federal Reserve has often warned of the potentially negative consequences of a sharp turn toward monetary ease, the odds favoring just such a move are getting shorter by the day. For notwithstanding the disarray plaguing Federal finances and the parlous state of the dollar in the foreign exchange markets, the ongoing unraveling of the economy and the likelihood of diminished price pressures in the months ahead has tipped the scales in favor of markedly lower interest rates.

Last week's meeting of the central bank's policy-setting Federal Open Market Committee must have been a decidedly glum affair, acknowledging not only the chronic lethargy affecting ever-larger chunks of the economy but also the fact that the policy of gradually lowering interest rates in painfully small doses has done little to impede—let alone reverse—the slowdown. Under these circumstances, with the threat of a full-fledged recession looming ever closer while the prospect of quickening inflation ebbs, a more aggressive treatment of the economy's underlying fatigue is called for.

Within the space of just a few short weeks, many of the formerly mixed economic signals have taken on an unmistakably bearish tint, and any lingering good news seems to have vanished with autumn's leaves. In October, for example, industrial production took a steep dive, tumbling by 0.8 percent month-over-month, the first decline since last spring and the largest monthly drop since January. Although a hefty downshift in automobile assemblies paced the plunge, weakness was hardly confined to vehicles. Production declines were broad-based; output of consumer goods, business equipment and construction materials all shared in the drop. Not surprisingly, as output faltered, so did industry operating rates. Overall, capacity utilization dipped to 82.6 percent in October, down 0.9 percent during the month, to its lowest level in three years.

To be sure, one month's decline in industrial output, even of October's magnitude, does not necessarily indicate that a recession is underway. After all, industrial production has eased on numerous monthly occasions throughout this business expansion. But, what appears to be different this time around is that the faltering of factory output is running in tandem with, rather than counter to, the trend in virtually all other economic statistics and surveys.

Private sector payroll employment has dropped for two months in a row, initial claims for state unemployment insurance have spiked to a 7½-year high, help-wanted advertising has slid to a 6½-year low, retail sales are anemic, consumer confidence has plunged and construction activity plumbs new depths month in and month out. Indeed, one of the classic footprints of an economic downdraft was last month's collapse of average hours worked, a good proxy for the direction of gross national product. These hours fell by better than one percent in October, the largest monthly drop since early 1982.

Fewer Deterrents To Easier Money

At this juncture, the economy's resuscitation seemingly requires a large dollop of interest rate relief. Fortunately, two of the principal impediments to such a move, inflation concerns and Federal budget disarray, seem to be falling by the wayside. On the inflation front, although the Fed remains wary of higher oil prices spilling into wages and non-energy prices, so far this has not happened, and the latest reading of the producer price index provides the evidence. While producer prices for finished goods leaped 1.1 percent higher last month, almost all of the gain reflected higher energy costs. Excluding these, the index was up by a slight 0.2 percent, and was actually unchanged if the other volatile component, food, is netted out as well.

So, too, the price indexes for intermediate goods and crude materials have been distorted by escalating oil costs. The index for intermediate goods, for example, is up by only 1½ percent over the past year after the volatile food and energy components are peeled away, while the crude materials index has barely budged. Even the closely-watched employment cost index, perhaps the best inflation gauge, is now signaling inflation moderation. With the surge in benefit costs slowing, total compensation

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costs in the third quarter rose at their slowest clip since mid-1988.

Nor does the Federal government's financial plight present quite the obstacle to ease that it did as recently as a month ago, notwithstanding the glaring inadequacies of the recently approved budget accord. With Federal spending spiraling toward $1.3 trillion in the current fiscal year, and the deficit slated to widen to a record $253 billion, the five-year budget package neither cut spending nor reduced the deficit—neither in the first year, nor in the subsequent years as well. Only paltry reductions in previously scheduled spending increases will occur this year, and billions of dollars have been lopped off future deficits with a set of highly upbeat economic assumptions. What is more, the so-called spending caps—designed to put some teeth into the enforcement provisions of the agreement—contain a huge loophole since they can be adjusted for changing economic conditions and "technical corrections". Yet, Fed Chairman Greenspan indicated repeatedly that a budget accord would unlock the door to lower interest rates. He kept his part of the bargain, apparently finding enough fiscal restraint in the form of higher taxes to justify nudging short-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/31/90)	208,553	+ 10	- 9,479
New York City (11/7/90)	35,413	- 480	- 6,520
Commercial Paper (11/7/90)	558,707	+ 56	+ 45,536

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/31/90)	319,508	+ 1,464	- 1,032
New York City (11/7/90)	57,812	- 397	- 2,189

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/31/90)	1,020,852	+ 3,651	+ 21,079
New York City (11/7/90)	178,580	- 780	- 3,382

Financial Markets

	Friday 11/16/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.30%	+ .03	- .63
180-Day Bills†	7.36	- .01	- .50
Longest Bills†	7.26	- .04	- .42
Recent Issues:			
7⅛s 10/31/92	7.55	- .03	
8⅛s 9/15/94	7.82	- .12	
8⅛s 11/15/00	8.30	- .17	
8¾s 8/15/20	8.45	- .19	
Municipals:			
Bond Buyer—20 Bond Index* (11/15/90)	7.15%	- .09	+ .03
Blue List Total ($ Million)	$1,099	+ $124	- $ 139
30-Day Visible Supply ($ Million)	$1,039	- $639	- $ 74
Total	$2,138	- $515	- $ 213
Corporates:			
Moody's Aa Composite (11/15/90)	9.61%	- .06	+ .50
30-Day Visible Supply ($ Million)	$ 850	+ $100	- $4,000
Stocks:			
Dow-Jones Averages:			
Industrials	2,550.25	+ 61.64	- 102.41
Transportation	864.28	+ 30.89	- 326.87
Utilities	208.25	- 2.07	- 12.83
65 Stocks	890.74	+ 18.47	- 116.57
N.Y.S.E. Composite Index	173.30	+ 2.13	- 15.98
N.Y.S.E. Avg. Daily Vol. for Week (000's)	163,819	+ 16,119	+15,427

*34% Taxable equivalent 10.83%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/16/90	Week Ago
Overnight	7.94%	7.75%
1 month	7.81	7.88
3 month	7.94	8.00
6 month	7.88	7.94
1 year	7.88	8.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/16/90)	Currency Per U.S. $	Week Ago
Belgium	30.48	30.64
Canada	1.1630	1.1695
France	4.9860	4.9980
Germany	1.4765	1.4885
Italy	1113.50	1121.00
Japan	129.60	129.20
Mexico	2932.20	2929.00
Netherlands	1.6655	1.6785
South Korea	703.79	705.38
Switzerland	1.2495	1.2483
Taiwan	26.74	26.77
U.K.*	1.9595	1.9687

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (11/16/90)	Change Since Week Ago	Change Since 2/27/85
(Adjusted for Inflation)	+0.2%	+1.0%

term interest rates lower.

A Vulnerable Dollar

The most frequently cited deterrent to easier money is the tenuous state of the dollar in the foreign exchange markets. However, its importance should not be exaggerated. While the dollar has dropped by nearly 13 percent versus the Deutschemark and by almost 14½ percent against Japanese yen since early June, the decline has so far been "orderly", the costs few and the benefits obvious in terms of enhanced U.S. international competitiveness and healthy exports. And, some of the benefits even extend to the other industrial countries.

While a soft dollar moderates the recessionary impulses rippling through this economy, the strengthening of foreign currencies blunts the inflationary impact overseas of escalating dollar-denominated oil prices. Throughout the industrial world, the weakening dollar is helping to keep inflation a bit slower than it might otherwise be. Rather than an obstacle to ease, dollar depreciation is a good policy supplement to it, a combination which might provide the wherewithal to moderate today's business downturn. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/14/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	245.866	- .798	+24.451
Loans to Depository Inst.	.288	+ .011	- .053
Float	.531	- .152	- .666
Total Reserve Bank Credit	287.467	- .736	+26.248
Treasury Deposits with Federal Reserve Banks	5.471	- 1.048	+ .714
Currency in Circulation	277.682	+ 1.983	+26.343
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	241.442	+ 1.852	+ 4.928
Member Bank Reserves:	**11/14/90**		
Total Reserves Held	60.154	+ 1.989	+ .341
Excess (Deficiency)	.915	+ .256	+ .034
Net Free Reserves	.658	+ .370	+ .029
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (11/5/90)	822.6	+ 5.2	+ 4.0
M2 (11/5/90)	3,315.7	+ 4.0	+ 4.1
M3 (11/5/90)	4,084.2	+ 2.0	+ 1.7
Domestic Nonfinancial Debt (2nd Q'90)	10,126.6	+ 6.3	+ 7.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/16/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.29%	7.38%	7.28%
* Federal Agencies	7.75	7.65	7.90
* Municipal Notes–High Grade (34% Taxable Equivalent)	7.95	8.33	9.09
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.00	7.90	7.75

‡ Finance Company Paper–Prime

5- 14 days	7.70%
15- 29 days	7.70
30- 59 days	7.58
60- 89 days	7.75
90-179 days	7.63
180-239 days	7.45
240-270 days	7.45

‡* Bankers' Acceptances

Dec.	7.83%
Jan.	7.90
Feb.	7.75
Mar.	7.65
Apr.	7.58
May	7.50

‡ Industrial Paper–Prime

30- 89 days	7.83%
90-120 days	7.75

†Federal Funds Effective Rate 7.56%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'90	$ 5,514	$ 5,443	$ 5,239
Gross National Product (1982 Dollars)*	3rd Q'90	$ 4,174	$ 4,155	$ 4,130
Percent Change, Annual Rate	3rd Q'90	1.8	0.4	1.7
Change in Consumer Prices*	Oct '90n	7.2 %	9.6%	6.0%
Change in MH Cost of Living Index*	Oct '90n	8.4 %	4.8%	6.0%
Change in Producer Prices*	Oct '90n	13.2 %	19.2%	6.0%
Civilian Employment (Thousands of Persons) †	Oct '90	117,711	117,898	117,585
Unemployment as % of Civilian Labor Force †	Oct '90	5.7%	5.7%	5.3%
Personal Income*	Sep '90	$ 4,697	$ 4,673	$ 4,412
Leading Indicators Composite Index (1967=100) †	Sep '90	143.3	144.4	145.0
Industrial Production Index (1977=100) †	Oct '90n	109.6	110.5r	107.7
Net Change in Consumer Installment Credit †	Sep '90n	$ 3.00	$ 3.06r	$ 2.18
U.S. Merchandise Trade Balance †	Sep '90n	- $ 9.41	- $ 9.73r	- $ 8.77
Plant and Equipment Expenditures*	4th Q'90	$ 538.6(a)	$ 532.5(a)	$ 519.6
Private Housing Starts (Thousands of Units)*	Sep '90	1,135	1,142	1,263
New Construction Expenditures*	Sep '90	$ 428.7	$ 441.1	$ 433.4
Total Business Inventories †	Sep '90n	$ 811.5	$ 807.5r	$ 789.4
Total Business Sales †	Sep '90n	$ 548.7	$ 551.9r	$ 527.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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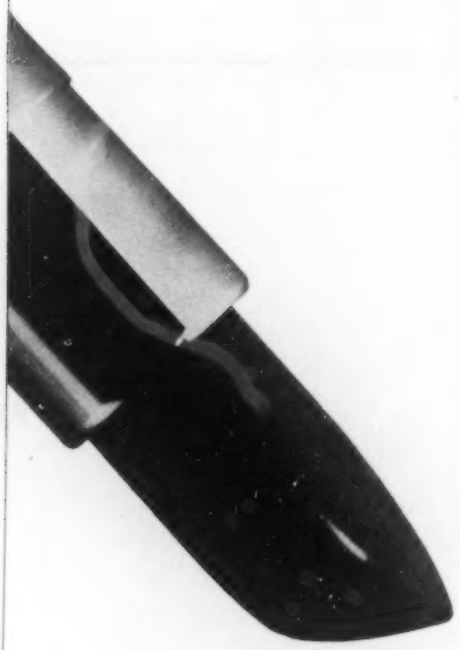

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